

Honorable Robert J. Bryan

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

CAMERON PIERCE and PATRICIA PIERCE,
husband and wife; KAREN KIRBY, a single
woman; GREGORY SHERMAN and PAULA
SHERMAN, husband and wife; MICHAEL
LEPAGE and GERTRUDE LEPAGE, husband
and wife, LARRY BROWN, a single man, and
RALPH MARTINELLI, a single man, on behalf
of themselves and a class of similarly situated
individuals,

Plaintiffs,

v.

NOVASTAR MORTGAGE, INC., a foreign
corporation,

Defendant.

No. C05-5835 RJB

**DECLARATION OF JOHN W.
PHILLIPS IN SUPPORT OF
PLAINTIFFS' MOTION FOR
PRELIMINARY APPROVAL OF
SETTLEMENT**

Note on Motion Calendar:
June 21, 2007

I, John W. Phillips, declare and state as follows:

1. I am one of the counsel representing Plaintiffs and the Class in this case. I have personal knowledge of the matters described in this declaration and am competent to testify. I submit this declaration in support of Plaintiffs' Motion for Preliminary Approval of Settlement.

2. The parties resumed settlement discussions on June 1, 2007. Lead counsel for both sides worked to find an acceptable resolution of the case. The parties reported their discussions to the Court on June 5, 2007.

DECLARATION OF JOHN W. PHILLIPS - 1

PHILLIPS LAW GROUP, PLLC
315 FIFTH AVENUE SOUTH, SUITE 1000
SEATTLE, WASHINGTON 98104-2682
telephone (206) 382-6163
fax (206) 382-6168

5. Attached hereto as Exhibit C is a true and correct copy of the proposed Class Settlement Notice and Notice of Fairness Hearing to the 80 class members that NovaStar identified after class notice was sent and thus who did not receive the first class notice.

7. Class Counsel mailed notice to 1663 potential class members pursuant to the Court's Order (Dkt. 177). Class members had until June 4, 2007, to opt-out of the class and only four class members excluded themselves.

8. I declare under penalty of perjury under the laws of the State of Washington that the foregoing statements are all true and correct to the best of my knowledge and belief.

DATED this 21st day of June, 2007.

/s/ John W. Phillips

DECLARATION OF JOHN W. PHILLIPS - 2

PHILLIPS LAW GROUP, PLLC
315 FIFTH AVENUE SOUTH, SUITE 1000
SEATTLE, WASHINGTON 98104-2682
telephone (206) 382-6163
fax (206) 382-6168

CERTIFICATE OF SERVICE

I hereby certify that on June 21, 2007, I caused the foregoing document to be electronically filed with the Clerk of the Court using the CM/ECF system and caused it to be electronically served on all counsel as follows:

Salvador A. Mungia
Stephanie Bloomfield
GORDON, THOMAS, HONEYWELL,
MALANCA, PETERSON & DAHEIM, LLP
P.O. Box 1157
Tacoma, WA 98401
smungia@gth-law.com
sbloomfield@gth-law.com

Donald C. Brown, Jr.
WEINER BRODSKY SIDMANN KIDER
1300 19TH St. N.W., 5th Floor
Washington, DC 20036
brown@wdsk.com

By: /s/ John W. Phillips

DECLARATION OF JOHN W. PHILLIPS - 3

PHILLIPS LAW GROUP, PLLC
315 FIFTH AVENUE SOUTH, SUITE 1000
SEATTLE, WASHINGTON 98104-2682
telephone (206) 382-6163
fax (206) 382-6168

The Honorable Robert J. Bryan

UNITED STATES DISTRICT COURT

WESTERN DISTRICT OF WASHINGTON AT TACOMA

CAMERON PIERCE and PATRICIA PIERCE,)
husband and wife; KAREN KIRBY, a single)
woman; GREGORY SHERMAN and PAULA)
SHERMAN, husband and wife; MICHAEL)
LEPAGE and GERTRUDE LEPAGE, husband)
wife; LARRY BROWN, a single man; and)
RALPH MARTINELLI, a single man, on behalf)
of themselves and a class of similarly situated)
individuals,)

Plaintiffs,)

v.)

NOVASTAR MORTGAGE, INC., a foreign)
corporation,)

Defendant.)

Civil Action No.: C05-5835-RJB

SETTLEMENT AGREEMENT AND GENERAL RELEASE

This is a Settlement Agreement and General Release ("Agreement") between NovaStar Mortgage, Inc. ("NovaStar Mortgage") and those Plaintiffs named in Exhibit A (the "Class Representatives") and the Class Members (as defined herein). NovaStar Mortgage, the Class Representatives and the Class Members may collectively be referred to herein as "the Parties." This Agreement is subject to approval of the Court.

WHEREAS, the Class Representatives and their Counsel ("Class Counsel") filed a Complaint against NovaStar Mortgage in the United States District Court for the Western District of Washington at Tacoma, entitled *Pierce et. al. v. NovaStar Mortgage, Inc.*, No. C05-5835-RJB, alleging that NovaStar Mortgage had violated the Washington Consumer Protection Act (the "Litigation");

WHEREAS, the Court on October 31, 2006, certified a Class in this Litigation;

EXHIBIT A

WHEREAS, on April 19, 2007, the Court amended the class definition to include the following persons:

- You entered into a federally-regulated mortgage loan that was subject to the requirements of Washington Law and secured by property within the State of Washington, at any time from December 30, 2001 to the present; and
- NovaStar paid money to your mortgage broker ("Payment") in return for negotiating a higher interest loan for you; and
- Neither NovaStar nor the broker adequately disclosed to you the Payment on a good faith estimate dated no later than three days after the date on which NovaStar received the loan application or, if your application was received fewer than three days before you signed final loan documents, the date on which you signed final loan documents; and
- You paid the mortgage broker compensation in the form of an "origination fee" or "broker fee" in addition to the Payment that NovaStar paid to the broker;

WHEREAS, notice of the class certification was provided to the Class in the form set out in the Court's Order of April 19, 2007;

WHEREAS, the Class Representatives and Class Members obtained mortgage loans either (1) from NovaStar Mortgage through mortgage brokers or (2) from correspondent lenders that sold the loans to NovaStar Mortgage;

WHEREAS, the Class Representatives and Class Members allege that NovaStar Mortgage failed to adequately disclose payments that NovaStar Mortgage made to the mortgage brokers and correspondent lenders associated with their loans;

WHEREAS, NovaStar Mortgage has denied the claims being alleged in this Litigation;

WHEREAS, Class Counsel, the Class Representatives, Counsel for NovaStar Mortgage, and NovaStar Mortgage have investigated the facts relating to the claims alleged and the underlying events and transactions in the Litigation, have conducted significant document and deposition discovery in the Litigation, have made and/or defended motions for dismissal, for summary judgment and for class certification, and other pre-trial matters, have taken account of the Court's pre-trial rulings, and have made a thorough study of the law applicable to the asserted claims;

WHEREAS, through their respective Counsel, Class Representatives and NovaStar Mortgage have engaged in extensive arm's-length negotiations concerning the settlement of the claims asserted in the Litigation;

WHEREAS, separate from the Parties' agreement as to the principal terms and conditions of this Agreement that benefit the Class, the Parties negotiated and agreed to attorney's fees that NovaStar Mortgage will pay Class Counsel as set forth below;

WHEREAS, the Class Representatives and Class Counsel have concluded, based upon their investigation, and taking into account the risks in the Litigation and the expense and time necessary to prosecute the Litigation to a successful conclusion, and the substantial benefits to be received pursuant to this Settlement Agreement, that a settlement with NovaStar Mortgage on the terms set forth herein is fair, just, equitable, reasonable, adequate and in the best interests of the Class Representatives and the Class Members, and have agreed to settle this Litigation with NovaStar Mortgage on the terms set forth herein; and

WHEREAS, NovaStar Mortgage denies each of the claims asserted against it in the Litigation and denies any and all liability, but based upon its investigation, and taking into account the risks in the Litigation and the expense and time necessary to defend the Litigation successfully, has agreed to this Settlement with the Class and Class Representatives on the terms and conditions set forth herein;

NOW THEREFORE, intending to be legally bound by and acknowledging the sufficiency of the consideration and undertakings set forth herein, the Parties agree, subject to the approval of the Court and the provisions contained herein and in the Exhibits hereto, that the Litigation and the Released Claims against the Released Persons (all as defined herein) are finally and fully compromised and settled, and that the Litigation shall be dismissed with prejudice as follows:

1. Denial of Liability and No Admissions

The Parties enter into this Agreement to resolve the disputes that have arisen between them and to avoid the burden, expense and uncertainties of the Litigation. In entering into this Agreement, NovaStar Mortgage does not admit, and specifically denies, that it breached any contract, violated or breached any duty, engaged in any misrepresentation or deception or violated any federal, state, or local law, or any regulations or guidelines promulgated pursuant to law. Neither this Agreement, nor any of its terms or provisions, nor any of the negotiations connected with it, shall be construed as an admission or concession by NovaStar Mortgage of any such violations or failures to comply with any applicable law. Except as necessary in a proceeding to enforce the terms of this Agreement, neither this Agreement nor any of its terms, Exhibits or related judicial orders or findings shall be offered or received as evidence or otherwise in any action or proceeding to establish any liability, admission, fact or thing on the part of or against NovaStar Mortgage, or to establish the existence or even any inference of any fact.

2. Commitment to Support

Class Representatives, Class Counsel, NovaStar Mortgage, and NovaStar Mortgage's Counsel agree to support this Agreement and recommend its approval by the Court and to undertake their best efforts, including all reasonable steps and efforts contemplated by this Agreement to give force and effect to its terms and conditions. Class Representatives, Class Counsel, NovaStar Mortgage, and NovaStar Mortgage's Counsel shall not encourage any objections to this Agreement (or any of its terms or provisions) or encourage any Class Members who are still eligible to do so to elect to opt-out.

3. Claims of the Class Representatives and Benefits of Settlement

The Class Representatives believe that the claims asserted in the Litigation have merit. However, Class Counsel and the Class Representatives recognize and acknowledge the risk of continued litigation and the expense and length of continued proceedings that would be necessary to prosecute the Litigation against NovaStar Mortgage to a successful conclusion through trial and appeal. The Class Representatives and Class Counsel believe that the Settlement set forth in this Agreement confers substantial benefits upon the Class Members. Based on their evaluation of all of these factors, the Class Representatives and Class Counsel have determined that the Settlement is in the best interests of the Class Representatives and the Class Members.

4. Definitions

As used in this Agreement, the following terms shall be defined as set forth below:

4.1 Agreement. "Agreement" means this Settlement Agreement and General Release, and all Exhibits hereto.

4.2 Class Counsel. "Class Counsel" means Phillips Law Group, PLLC, and Bergman & Frockt.

4.3 Class Member and NovaStar Mortgage Certification. "Class Member" means those persons whose NovaStar Loan numbers are listed on Exhibit B. Class Members have been identified by Class Counsel through review of information provided by NovaStar Mortgage. NovaStar Mortgage hereby certifies that to the best of its knowledge it has identified to Class Counsel all Washington state loans that were either (1) made by NovaStar Mortgage during the class period on which compensation was paid to a mortgage broker by NovaStar Mortgage or (2) purchased by NovaStar Mortgage during the class period from correspondent lenders on which NovaStar Mortgage paid a premium to the correspondent lender based on NovaStar Mortgage's interest rate sheet applicable to the NovaStar Loan. For the purposes of this Agreement, Class Members do not include anyone who previously entered into a general release of claims against NovaStar Mortgage.

4.4 Class Representatives. "Class Representatives" means the Plaintiffs listed in Exhibit A.

4.5 Effective Date. "Effective Date" means the date upon which the Court's Judgment approving the Settlement becomes final.

4.6 Fairness Hearing Date. "Fairness Hearing Date" means the date that will be set by the Court for the fairness hearing on approval of the class action settlement embodied in this Agreement, which date shall be at least ninety (90) days after the date on which notice of the proposed Settlement and Fairness Hearing is sent as provided in Section 5.

4.7 Judgment. "Judgment" means the Judgment entered by the Court approving the Settlement.

4.8 NovaStar Loan. “NovaStar Loan” means the mortgage loan upon which each Class Member bases his or her claim.

4.9 NovaStar Mortgage. “NovaStar Mortgage” means NovaStar Mortgage, Inc.

4.10 Objection Date. Objection Date means the date forty-five (45) days after Class Counsel mails the notice described in Section 5.

4.11 Released Claims. “Released Claims” means and includes any and all claims based on the facts and allegations in the Litigation (including any claims, defenses or assertions of rescission, voidness, voidability, illegality, offset or the like), demands, actions, causes of action, rights, offsets, restitution, damages, lawsuits, liens, costs, losses, expenses or liabilities of any kind whatsoever, for any relief whatsoever, including monetary, injunctive or declaratory relief, or for reimbursement of attorney’s fees, costs or expenses, whether known or unknown, suspected or unsuspected, contingent or vested, which the Class Representatives and Class Members have had, now have or may have asserted in the Litigation. Without limiting the foregoing, “Released Claims” specifically include claims of the Class Representatives and Class Members relating to (1) NovaStar Mortgage’s payments to brokers or correspondent lenders, (2) NovaStar Mortgage’s payments to NovaStar Home Mortgage, Inc., and (3) allegedly inadequate disclosure of NovaStar Mortgage’s payments to brokers or correspondent lenders on Good Faith Estimates or HUD-1 Settlement whether those disclosures were made by brokers, NovaStar Mortgage or correspondent lenders.

4.12 Released Persons or Released Parties. With respect to the Released Claims by the Class Representatives and Class Members, “Released Persons” or “Released Parties” includes NovaStar Mortgage, and any of its affiliates, subsidiaries, parents, sister companies and any of their employees, agents, officers, directors, attorneys, insurers, predecessors, successors and/or assigns. Such released parties also include the mortgage brokers and correspondent lenders involved with the NovaStar Loans.

4.13 Settlement. “Settlement” means the settlement between the Parties as embodied in this Agreement.

5. Notice of Proposed Settlement and Fairness Hearing

5.1 Notice to Class Members. Within ten (10) days of the Court’s Preliminary Approval Order, Class Counsel will send to Class Members notice of the proposed Settlement and of the date of the Fairness Hearing. The form of notice to Class Members shall be subject to Court approval.

5.2 Notice to Appropriate Federal and State Officials. Within ten (10) days of the Court’s Preliminary Approval Order, NovaStar Mortgage shall serve the notice required by 28 U.S.C. § 1715(b), on the United States Attorney General, the Washington Attorney General, and the Director of the Washington Department of Financial Institutions, and such other state officials as NovaStar deems necessary.

5.3 Certification that NovaStar Mortgage Is Not Subject to Notice Requirements of 28 U.S.C. § 1715(a)(1)(B). NovaStar Mortgage hereby certifies that it is not subject to the notice requirements set forth in 28 U.S.C. § 1715(a)(1)(B) that apply to federal depository institutions, state depository institutions, depository institution holding companies, foreign banks, and nondepository institution subsidiaries of the foregoing, as those terms are defined in section 3 of the Federal Deposit Insurance Act, 12 U.S.C. § 1813.

6. Consideration

6.1 Total Payment in Consideration for Settlement. Within five (5) business days of the Effective Date, NovaStar Mortgage agrees to pay a total of \$5.1 million to Class Members and Class Counsel, with accrual of interest as provided in paragraph 6.2 below, in full and complete satisfaction of all claims in the Litigation. The payment shall be made to Phillips Law Group, PLLC. The Parties agree that the payment will be allocated in the following manner:

(a) Payment to Class Members. \$3.3 million is to go to Class Members in full and complete satisfaction of all of their claims in the Litigation. Class Counsel will serve as the administrator of the Settlement and will distribute these funds to Class Members. Class Counsel and the Class Representatives will be responsible for proposing a distribution plan to the Court, as to which NovaStar will not object as long as NovaStar's obligations under this Settlement Agreement do not change as a consequence of the distribution plan, which Class Counsel will ask the Court to approve before administering.

(b) Attorney's Fees. \$1.8 million is to go to Class Counsel in full and complete satisfaction of any claim for attorney's fees in this Litigation.

6.2 Accrual of Interest. If the \$5.1 million payment referenced in Section 6.1 has not been made by September 12, 2007, interest will begin to accrue at the federal post-judgment interest rate and will continue to accrue until the payment is made by NovaStar Mortgage (the "Accrued Interest"). In no event, however, will Accrued Interest exceed \$125,000.

6.3 Post-Settlement Fees and Costs Incurred by Class Counsel. NovaStar Mortgage further agrees to pay up to \$75,000 to Class Counsel for fees and costs incurred, commencing June 6, 2007, in connection with the execution, approval and administration of the Settlement. Class Counsel will perform this work at their normal billing rates. Class Counsel will submit monthly bills for their work related to the execution, approval and administration of the Settlement to NovaStar Mortgage for review and payment. The Court will resolve any dispute over payment due to Class Counsel under this paragraph.

6.4 No Other Payments. The amounts referenced in Section 6 are the only payments that NovaStar Mortgage is required to make in connection with this Agreement.

7. Release

7.1 Upon NovaStar Mortgage's Payment pursuant to paragraph 6.1 above, the Judgment shall be deemed to have dismissed the Litigation with prejudice and bar, settle, release, discharge, extinguish and dismiss with prejudice completely, individually and collectively, fully, finally and forever the Released Claims.

7.2 Notwithstanding the provisions of this Agreement, each Class Representative, on his or her own behalf and on behalf of each Class Member who has not yet fully paid his or her NovaStar Loan or has not discharged the NovaStar Loan in bankruptcy, acknowledges and agrees that the obligation to comply with the terms of the NovaStar Loan is not relieved, impaired or affected in any way due to the settlement of the claims asserted in the Litigation. Nor does this Release resolve any claims that each Class Representative or Class Member may have associated with such continuing relationship with NovaStar Mortgage that are not based on the facts and allegations in the Litigation. With respect to the Class Representatives, Michael and Trudy LePage, NovaStar agrees to modify the LePages' loan to a fixed rate of 7.875% effective June 1, 2007 and move unpaid monthly payments to the end of the loan term, extending the loan term accordingly. The changes to the LePage Loan will be evidenced by a modification agreement, in recordable form.

7.3 Upon NovaStar Mortgage's Payment pursuant to paragraph 6.1 above, NovaStar Mortgage shall be deemed to have, and by operation of the Judgment shall have, fully finally, and forever released, relinquished and discharged each and all of the Class Representatives, and Class Members and Class Counsel from all claims, including unknown claims, based upon or arising out of the institution, prosecution, assertion, settlement or resolution of the Litigation.

8. Filing Objections Before the Fairness Hearing

Any Class Member who wishes to be heard at the Fairness Hearing or who wishes to object to the Settlement must serve on Class Counsel a written notice of objection postmarked by the Objection Date and include (a) a statement of the desire to be heard at the Fairness Hearing and/or a statement of each objection asserted; (b) a description of the facts underlying each objection (if any); and (c) a copy of any documents that the objector may offer during the Fairness Hearing.

The Parties will request that the Court enter an order requiring that all Class Member objectors deliver such notice or request to be heard to Class Counsel or postmark such notice or request by mail addressed to Class Counsel no later than the Objection Date. Class Counsel will then be responsible for serving the same upon NovaStar Mortgage's counsel and the Court. The parties will further request that the Court enter an order to the effect that (a) objectors who fail to properly or timely file their objections with the Court or to serve them as provided above shall not be heard during the Fairness Hearing; (b) nor shall their objections be considered by the Court; (c) only Class Members may object to the Settlement Agreement; and (d) persons who opt-out of the Class may not object to the Settlement Agreement.

9. Limited Opt-Out Rights

Because the Court has already sent Class Notice to the vast majority of Class Members, the Parties will request that the Notice of Class Settlement not provide those Class Members with a second opportunity to exclude themselves from the Class. As for those Class Members who were not sent the Court's first class notice, the Notice of Class Settlement will provide the Class Member with an opportunity to exclude themselves from the Class if such exclusion is mailed to Class Counsel, postmarked by the Objection Date.

10. Choice of Law and Forum

This Agreement shall be governed by and construed for all purposes under the laws of the State of Washington. The United States District Court for the Western District of Washington at Tacoma shall have exclusive jurisdiction to enforce this Agreement, and any of the Parties may bring an action in that Court to redress a breach of this Agreement. Notwithstanding the foregoing, the terms of this Agreement and all of its Exhibits are regarded as material to the Parties' agreement, and cannot be altered, amended, or revised without the express agreement of all the Parties. If the Court or any appellate court reviewing the Court's Judgment conditions approval of the Settlement upon any substantive alteration, amendment or revision, then any Party shall have the absolute right to void this Agreement, and all Parties shall be restored to the status quo ante, including restoration of the Litigation for purposes of trial, as of the date hereof. In such event, it shall be as if this Agreement and all negotiations, had never existed, and no parties shall be prejudiced thereby, and no evidence relating to the Agreement or any negotiations relating hereto, shall be offered, admissible or discoverable in the Litigation or otherwise.

11. Final Judgment

At or upon the conclusion of the Final Hearing, the Parties shall submit to the Court a Proposed Final Judgment finally approving the Settlement and dismissing the Litigation.

12. Severability

If any provision of this Agreement is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

13. Successors and Assigns

This Agreement is binding on the Parties, their successors, heirs, and assigns, and inures to the benefit of each of the Released Parties and their predecessors, successors, heirs and assigns, as applicable.

14. Entire Agreement; Amendments

This is the complete and final Agreement between the Parties and supersedes all prior or contemporaneous agreements, offers, negotiations, representations, discussions, or communications, whether oral or written, with respect to any subject matter of this Agreement. No representations, warranties or promises have been made by or to any party to this Agreement with respect to the subject matter of this Agreement other than as expressly set forth herein. In deciding whether to enter into this Agreement, the Parties are not relying on any promises, statements, or representations other than those that are expressly set forth herein. This Agreement shall not be modified or amended except by a further written Agreement signed by the Parties.

15. Authority to Sign

For any business association, corporation or other business entity signing this Agreement, the individual signing this Agreement warrants and represents that he or she has obtained the necessary corporate authorization to execute the document and that by signing the Agreement that he or she is not doing so ultra vires.

16. Final and Binding Agreement

The Parties further state that they have carefully read this Agreement, that they fully understand its final and binding effect, and that the only promises made to sign this Agreement are those stated above.

17. Counterparts

This Agreement may be executed by the Parties in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. In addition, facsimile signature pages are acceptable and binding and shall be considered as if an original signature. All Party signatures are not required on the same copy of the Agreement.

18. Survival

The obligations of the Parties under this Agreement shall survive the merger, sale, liquidation, winding-down or dissolution of NovaStar Mortgage and the death(s) and/or bankruptcies of the Class Representatives and Class Members.

19. Notices

All notices to Class Representatives, Counsel for NovaStar Mortgage and Class Counsel shall be sent by first class U.S. Mail, by hand delivery, or by facsimile, to the recipient(s) designated in this Settlement Agreement. Timeliness of all submissions and notices shall be measured by the date of receipt, unless the addressee refuses or delays receipt. The persons designated to receive notice are as follows:

For the Class Representatives and the Class:

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

Ari Brown
Bergman & Frockt
614 First Avenue, Fourth Floor
Seattle, WA 98104

For the Defendants:


Mitchel H. Kider
Donald C. Brown, Jr.
Weiner Brodsky Sidman Kider
1300 19th Street NW
Washington, DC 20036

20. Continuing Jurisdiction.

The Court shall retain exclusive and continuing jurisdiction of the Lawsuit and this settlement, all Parties and Class Members, to interpret, effectuate, enforce and implement this Agreement, and any disputes involving the same shall be resolved exclusively by the Court. Class Members agree that the Court's decision shall be binding upon him, her or it.

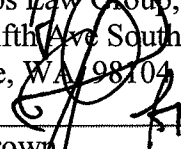
FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: June 21, 2007



John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____



Ari Brown
Bergman & Frockt
614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage

DATED: _____

Michael LePage

DATED: _____

Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

Ari Brown
Bergman & Frock
614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: 6.20.07


Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage

DATED: _____

Michael LePage

DATED: _____

Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

Ari Brown
Bergman & Frockt
614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: 6-20-2007

Gertrude LePage
Gertrude LePage

DATED: 6-20-07

Michael LePage
Michael LePage

DATED: _____

Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE. INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

Ari Brown
Bergman & Frockt
614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage

DATED: _____

Michael LePage

DATED: 6/20/07



Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

Ari Brown
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614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage


DATED: _____

Michael LePage

DATED: _____

Ralph Martinelli

DATED: 06/20/07


Cameron Pierce

DATED: 6/20/07


Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

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Bergman & Frockt
614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage

DATED: _____

Michael LePage

DATED: _____

Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: 6/20/07

Paula Sherman for Gregory Sherman

Gregory Sherman

DATED: 6/20/07

Paula Sherman
Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: _____

FOR THE CLASS REPRESENTATIVES, CLASS MEMBERS AND CLASS COUNSEL:

DATED: _____

John W. Phillips
Phillips Law Group, PLLC
315 Fifth Ave South, Suite 1000
Seattle, WA 98104

DATED: _____

Ari Brown
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614 First Avenue, Fourth Floor
Seattle, WA 98104

DATED: _____

Larry Brown

DATED: _____

Karen Kirby

DATED: _____

Gertrude LePage

DATED: _____

Michael LePage

DATED: _____

Ralph Martinelli

DATED: _____

Cameron Pierce

DATED: _____

Patricia Pierce

DATED: _____

Gregory Sherman

DATED: _____

Paula Sherman

FOR NOVASTAR MORTGAGE, INC.

DATED: 6/21/07



Chairman

Pierce v. NovaStar Mortgage Inc.
United States District Court
Western District of Washington at Tacoma
No. C05-5835-RJB
SETTLEMENT AGREEMENT AND GENERAL RELEASE

EXHIBIT A

Class Representatives

Larry Brown
Karen Kirby
Gertrude LePage
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Pierce v. NovaStar Mortgage, Inc.
United States District Court
Western District of Washington at Tacoma
No. C05-5835-RJB
SETTLEMENT AGREEMENT AND GENERAL RELEASE
EXHIBIT B
Class Members (By Loan ID No.)

2002240	50005136	01-109615	02-032935	02-066841
20021687	50005683	01-109651	02-034880	02-067485
20021853	50005771	01-110629	02-036670	02-068081
20021889	50005795	01-110676	02-036891	02-068794
20022010	50006080	01-110842	02-039244	02-069344
20022051	50006279	01-111830	02-040104	02-069511
20022083	50006423	01-112028	02-040447	02-069793
20022140	50006521	01-112049	02-041687	02-070511
50000382	50006544	01-112085	02-041837	02-072773
50000422	50006585	01-114233	02-041937	02-072832
50000500	50006601	01-114593	02-043067	02-073665
50000660	50006655	01-114909	02-043400	02-075707
50000844	50006673	01-115042	02-043540	02-076918
50000967	50006707	01-116098	02-044155	02-078891
50001075	50006708	01-116627	02-045720	02-078914
50001137	50007355	01-116708	02-047348	02-079354
50001258	50007858	01-117365	02-049266	02-079798
50001335	50008035	02-000463	02-049272	02-081216
50001491	50008170	02-002444	02-049603	02-081969
50001514	50008969	02-003905	02-049650	02-082843
50001742	50008994	02-005068	02-049739	02-084403
50001768	50009000	02-005425	02-050124	02-084441
50001769	50009059	02-005584	02-051212	02-086622
50001851	50009113	02-005714	02-053072	02-086814
50002051	50009181	02-005744	02-055096	02-087303
50002074	50009568	02-006126	02-055368	02-088278
50002077	50009904	02-008959	02-056777	02-090004
50002274	50009950	02-010770	02-056876	02-094426
50002295	59000397	02-011159	02-058333	02-094735
50002337	59000700	02-012236	02-059258	02-094784
50002422	59000825	02-015530	02-060897	02-094797
50002659	59001239	02-017018	02-061077	02-094886
50002799	59001302	02-017582	02-061229	02-095278
50003281	59001841	02-018850	02-061301	02-095441
50003508	59001859	02-019631	02-062474	02-095712
50003811	5000500700	02-019770	02-062564	02-095930
50003847	01-088398	02-020809	02-062809	02-095982
50004139	01-095948	02-023725	02-062932	02-096280
50004469	01-098620	02-023956	02-063413	02-102112
50004719	01-099624	02-026464	02-063661	02-102593
50004781	01-102087	02-029017	02-064469	02-104334
50004827	01-103185	02-029018	02-065685	02-105837
50005091	01-108621	02-029968	02-065921	02-110797
50005092	01-109041	02-032608	02-066368	02-111259

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02-111470	02-170852	02-222834	03-005141	03-130296
02-114815	02-171160	02-226123	03-005660	03-131936
02-116013	02-173802	02-226187	03-005801	03-134340
02-116826	02-174381	02-226826	03-006457	03-136538
02-118465	02-176238	02-227541	03-006942	03-144836
02-119016	02-176746	02-227754	03-008161	03-145403
02-119336	02-177778	02-229004	03-015195	03-148074
02-124836	02-178055	02-229319	03-016906	03-149115
02-127714	02-178179	02-229396	03-020906	03-152340
02-132952	02-178388	02-229557	03-028910	03-153219
02-133928	02-180910	02-233424	03-029949	03-155934
02-134421	02-182826	02-234155	03-030043	03-180270
02-134641	02-184820	02-234482	03-033214	03-183802
02-135409	02-185196	02-236348	03-036005	03-183882
02-136479	02-185308	02-236709	03-042369	03-193520
02-137720	02-185734	02-236738	03-044425	03-193632
02-139830	02-188440	02-236831	03-047360	03-195451
02-142172	02-188929	02-238658	03-051142	03-195941
02-142199	02-189976	02-238953	03-053643	03-198645
02-142840	02-190823	02-239861	03-055494	03-198931
02-144903	02-191148	02-240379	03-057135	03-200589
02-145279	02-192158	02-240541	03-058572	03-205730
02-147225	02-193455	02-240683	03-071788	03-212019
02-147760	02-193628	02-240981	03-074418	03-218393
02-149409	02-196322	02-243083	03-074781	03-219353
02-151557	02-196734	02-243969	03-074787	03-219498
02-152454	02-197110	02-243994	03-081654	03-223152
02-152611	02-201407	02-248228	03-082890	03-229138
02-154657	02-205557	02-249842	03-095462	03-233826
02-155052	02-207103	02-251768	03-099485	03-239863
02-156453	02-210059	02-252198	03-099659	03-240770
02-156717	02-212759	02-255589	03-099820	03-244223
02-156882	02-214051	02-257808	03-101532	03-245515
02-158132	02-214618	02-258007	03-105678	03-250531
02-159588	02-215133	02-258796	03-106550	03-256622
02-160232	02-215488	02-259575	03-109305	03-256623
02-160693	02-216489	02-259800	03-113869	03-257090
02-163486	02-217661	02-260836	03-114852	03-259585
02-163965	02-217875	02-265254	03-115002	03-264362
02-166541	02-219134	02-265298	03-115602	03-264901
02-167232	02-219649	03-001198	03-119039	03-267347
02-168069	02-220364	03-003862	03-119657	03-267613
02-169998	02-220551	03-004276	03-127293	03-269027
02-170436	02-222029	03-004657	03-129543	03-269479

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03-274802	03-383728	03-482580	03-576083	03-625621
03-278564	03-390014	03-483215	03-577563	03-626470
03-279334	03-393024	03-484716	03-578592	03-626495
03-282013	03-393518	03-489701	03-578773	03-627900
03-284859	03-396365	03-495704	03-578982	03-629194
03-285798	03-396486	03-499345	03-579729	03-635250
03-285865	03-397713	03-501118	03-581088	03-637774
03-286051	03-400614	03-501730	03-582535	03-637883
03-290590	03-401420	03-502999	03-586086	03-640465
03-293914	03-402805	03-505356	03-586264	03-645104
03-295126	03-403794	03-506533	03-587485	03-646671
03-298399	03-406867	03-512443	03-587818	03-646961
03-299257	03-408104	03-519143	03-588487	03-647137
03-300183	03-408929	03-528779	03-590130	03-649026
03-303409	03-409449	03-531920	03-591580	03-649804
03-305553	03-415006	03-533010	03-591632	03-651940
03-312118	03-415454	03-534167	03-593281	03-652135
03-312838	03-418652	03-534480	03-595277	03-652627
03-312850	03-420620	03-537671	03-595982	03-654815
03-313267	03-423728	03-540894	03-598158	03-655932
03-318579	03-425601	03-542345	03-600078	03-657634
03-320145	03-426924	03-542969	03-600683	03-659101
03-323367	03-427631	03-547666	03-601138	03-659525
03-323657	03-429255	03-548090	03-603435	03-659950
03-336503	03-429891	03-551669	03-603744	03-662458
03-336908	03-432403	03-552903	03-606058	03-662801
03-336961	03-433699	03-556905	03-607488	03-662853
03-340196	03-434597	03-557952	03-608002	03-665217
03-340437	03-442688	03-558665	03-608010	03-667072
03-341098	03-446739	03-558696	03-611738	03-667378
03-346147	03-446969	03-561015	03-612782	03-668871
03-346932	03-450993	03-563178	03-613278	03-670699
03-350533	03-453648	03-563656	03-614512	03-670864
03-355680	03-454266	03-563799	03-614829	03-674060
03-358549	03-457639	03-565621	03-616372	03-674641
03-360521	03-461394	03-566312	03-616572	03-674999
03-361672	03-462311	03-567131	03-618507	03-675435
03-365200	03-463241	03-567226	03-618608	03-675488
03-368689	03-464277	03-568776	03-620199	03-675974
03-368708	03-465250	03-569679	03-621572	03-675998
03-373576	03-469741	03-570652	03-623605	03-676735
03-376889	03-477496	03-572746	03-624101	03-677174
03-379299	03-477725	03-573583	03-624999	03-677678
03-379570	03-481096	03-574543	03-625234	03-679068

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03-679170	03-747449	03-913571	03-995828	03-B09087
03-679585	03-748040	03-914342	03-999387	03-B09124
03-681387	03-748317	03-919387	03-A00221	03-B09764
03-681667	03-775599	03-919547	03-A06946	03-B11154
03-682733	03-776183	03-922370	03-A07057	03-B11686
03-684140	03-777362	03-927069	03-A07883	03-B12195
03-684553	03-797051	03-931118	03-A12401	03-B13566
03-684934	03-798540	03-931755	03-A14745	03-B13877
03-686947	03-808425	03-932606	03-A15773	03-B20857
03-688044	03-815017	03-933490	03-A19641	03-B21229
03-690071	03-818921	03-941409	03-A19712	03-B23784
03-690467	03-820005	03-942152	03-A20947	03-B26051
03-691365	03-820022	03-944174	03-A22742	03-B26999
03-695487	03-822312	03-947065	03-A23150	03-B29462
03-698020	03-822454	03-953090	03-A23383	03-B29767
03-698102	03-825800	03-953689	03-A25010	03-B29810
03-698872	03-826492	03-954538	03-A27933	03-B33589
03-701068	03-828215	03-955541	03-A29397	03-B39199
03-702941	03-829569	03-958445	03-A30881	03-B39643
03-706246	03-831601	03-959090	03-A33222	03-B43868
03-706612	03-833861	03-961585	03-A36618	03-B44769
03-716180	03-834500	03-969424	03-A39881	03-B51204
03-717311	03-834717	03-970623	03-A43415	04-001499
03-717939	03-837992	03-971479	03-A44234	04-001602
03-719502	03-840181	03-971780	03-A44254	04-004951
03-722211	03-841210	03-972092	03-A44873	04-008607
03-723129	03-843818	03-974451	03-A45008	04-019235
03-724075	03-847218	03-977846	03-A46231	04-019415
03-726141	03-848196	03-978996	03-A48061	04-022969
03-727256	03-851137	03-981251	03-A50730	04-023675
03-728438	03-854826	03-981529	03-A58426	04-024462
03-728439	03-857399	03-981961	03-A59408	04-024582
03-731681	03-865014	03-982657	03-A60697	04-024638
03-732551	03-866433	03-982720	03-A60704	04-026027
03-733312	03-868163	03-983183	03-A61322	04-028824
03-733336	03-869249	03-983895	03-A62882	04-029961
03-734292	03-870531	03-984957	03-A66736	04-030796
03-737034	03-870889	03-986714	03-A72935	04-033393
03-738072	03-875961	03-986723	03-A98646	04-034315
03-738725	03-908401	03-987511	03-B01306	04-034323
03-739582	03-908937	03-987870	03-B03167	04-034840
03-741128	03-910255	03-991124	03-B03288	04-040572
03-744545	03-912103	03-991751	03-B07127	04-040733
03-747234	03-912387	03-995028	03-B08301	04-040934

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04-045609	04-225111	04-323649	04-512383	04-825822
04-049941	04-225137	04-324550	04-515255	04-832148
04-056665	04-227709	04-325920	04-516737	04-837293
04-060059	04-228837	04-328463	04-519632	04-838530
04-061946	04-230490	04-331128	04-525461	04-845618
04-063425	04-231192	04-331554	04-526516	04-851500
04-065022	04-231384	04-341008	04-539312	04-855414
04-065566	04-231751	04-344477	04-542263	04-859132
04-066493	04-232025	04-345156	04-550042	04-861286
04-069026	04-232531	04-345405	04-551968	04-864157
04-069964	04-233898	04-346095	04-554304	04-866598
04-171721	04-234318	04-347552	04-555161	04-868993
04-172712	04-235313	04-347819	04-561584	04-869419
04-173020	04-236895	04-347854	04-564198	04-878341
04-173309	04-243857	04-348513	04-568348	04-880945
04-174289	04-244158	04-348838	04-570696	04-885208
04-174675	04-247613	04-348921	04-571561	04-891231
04-174795	04-248363	04-354315	04-572538	04-898866
04-178647	04-249468	04-366030	04-573762	04-900964
04-184075	04-252409	04-366167	04-683866	04-915852
04-184956	04-253489	04-376710	04-684810	04-920668
04-187568	04-260830	04-380058	04-685301	04-926757
04-187995	04-261469	04-386425	04-686779	04-929081
04-190577	04-262088	04-391361	04-737624	04-929439
04-190582	04-264072	04-391602	04-738709	04-930319
04-194729	04-267567	04-473563	04-738839	04-933282
04-194895	04-269386	04-473712	04-743868	04-A09370
04-195016	04-293463	04-473931	04-743960	04-A56226
04-196487	04-300516	04-478697	04-746199	04-A57935
04-199753	04-301058	04-479509	04-746629	04-A58775
04-204195	04-303579	04-480127	04-748161	04-A64277
04-204567	04-304617	04-481821	04-750545	04-A69214
04-208714	04-304844	04-484746	04-752276	04-A70264
04-211072	04-306962	04-488750	04-755899	04-B04670
04-211227	04-308559	04-488756	04-757294	04-B05598
04-211643	04-309817	04-492124	04-757626	04-B08453
04-213005	04-311911	04-492725	04-759325	04-B10376
04-215592	04-314909	04-494946	04-759510	04-B10386
04-215624	04-315713	04-495261	04-761365	04-B12909
04-217083	04-316513	04-495403	04-772262	04-B15645
04-217367	04-319064	04-496912	04-814279	04-B18301
04-220362	04-322245	04-498404	04-818467	04-B24947
04-220437	04-322881	04-500072	04-819703	04-B25295
04-221200	04-323103	04-505004	04-825027	04-B30493

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04-B36341	04-E73366	04-J47664	05-283777	05-477983
04-B40008	04-E75774	04-J49279	05-286895	05-479224
04-B43756	04-E76803	04-J52033	05-296482	05-479708
04-B48953	04-E76965	04-J53060	05-296798	05-483069
04-B51728	04-E88492	04-J63532	05-304449	05-484451
04-B51758	04-E89867	04-J79551	05-305346	05-484510
04-B55446	04-F55720	04-J80528	05-312390	05-484748
04-B64815	04-F73118	04-J84742	05-317260	05-487330
04-B64881	04-F73640	04-J89113	05-318547	05-487984
04-B65781	04-F77887	04-J89738	05-319167	05-490169
04-B73492	04-F82854	04-J95111	05-319262	05-510424
04-B82174	04-F84361	04-K80312	05-321765	05-511819
04-B89866	04-F86965	04-K82021	05-325136	05-516957
04-B96028	04-F88099	04-K85255	05-328625	05-525258
04-B98909	04-G01085	04-K87789	05-329981	05-529368
04-C01648	04-G09104	04-K93880	05-367280	05-529499
04-C02417	04-G16221	04-K95651	05-367532	05-529790
04-C39604	04-G16728	04-K97600	05-368321	05-539465
04-C56463	04-G17646	04-K99816	05-371481	05-540172
04-C56565	04-G19808	04-L02303	05-389872	05-543820
04-C62006	04-G53190	05-006262	05-390220	05-545382
04-C63513	04-G53771	05-007737	05-392735	05-547657
04-C66200	04-G54459	05-101958	05-396248	05-547836
04-D10719	04-G59017	05-114322	05-399025	05-547926
04-D10862	04-G63553	05-116030	05-399946	05-549519
04-D39229	04-G66611	05-116909	05-401976	05-551705
04-D45939	04-G71178	05-118386	05-404659	05-559193
04-D51589	04-G80606	05-126377	05-404833	05-560522
04-D78003	04-G84791	05-127160	05-405151	05-564833
04-E04902	04-G87522	05-134612	05-408241	05-566541
04-E08041	04-G92344	05-140306	05-409056	05-566703
04-E09518	04-G99259	05-142147	05-410066	05-576924
04-E09930	04-H01008	05-147642	05-410232	05-577135
04-E10865	04-H17840	05-148701	05-413751	05-579066
04-E12229	04-H18943	05-149752	05-413818	05-581938
04-E13034	04-H21769	05-158183	05-414953	05-583824
04-E13314	04-I07413	05-164051	05-417138	05-594796
04-E15066	04-I13315	05-164509	05-423907	05-599457
04-E31009	04-I40556	05-252255	05-464962	05-601761
04-E36860	04-I40822	05-266660	05-465721	05-603255
04-E37239	04-I42286	05-270802	05-468806	05-604316
04-E40279	04-I46629	05-270836	05-473222	05-605492
04-E61844	04-J32218	05-275832	05-474417	05-608725
04-E68225	04-J32963	05-281714	05-474478	05-612191

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05-613543	05-769213	05-A57105	06-322289	06-669692
05-615017	05-770854	05-A63962	06-322444	06-681140
05-623734	05-773895	05-A64062	06-368922	06-681243
05-624141	05-780748	05-A82067	06-379428	06-686025
05-624175	05-780824	05-A93444	06-387917	06-689004
05-626998	05-780948	05-A98287	06-388271	06-690940
05-627003	05-781495	05-B00332	06-388411	06-712475
05-631382	05-794067	05-B09647	06-396166	06-765998
05-633905	05-796374	05-B13883	06-398014	06-777974
05-643503	05-810294	05-B14818	06-404568	06-778509
05-647877	05-813537	05-B21842	06-410322	06-786269
05-652200	05-815588	05-B52543	06-435001	06-786645
05-652575	05-817553	05-C26532	06-440345	06-789683
05-654952	05-818413	05-C55811	06-443797	06-799642
05-656790	05-820202	05-C80643	06-449818	06-804986
05-661012	05-820658	05-D57562	06-453516	06-832617
05-676067	05-823058	05-D60303	06-453782	06-838125
05-681666	05-826422	05-D79722	06-465371	06-847383
05-681752	05-828500	05-D86498	06-475652	06-883003
05-692997	05-831088	05-E00106	06-475983	06-883294
05-696144	05-832639	05-E04174	06-538833	06-890222
05-696311	05-836314	05-E19758	06-540646	06-893412
05-702855	05-837541	05-E26242	06-543417	06-940559
05-706251	05-838267	05-E41452	06-549449	06-942799
05-711052	05-841056	05-E53714	06-583867	06-946225
05-715443	05-841770	05-E61343	06-589480	06-956601
05-723392	05-842872	05-E88423	06-590927	06-964655
05-726315	05-860006	05-E93620	06-593959	06-970909
05-728519	05-863839	06-022478	06-594961	06-976303
05-734699	05-901491	06-025910	06-609982	06-976873
05-735402	05-905997	06-027281	06-611552	06-979514
05-736981	05-916181	06-058535	06-620419	06-990692
05-737913	05-921427	06-068762	06-622919	06-991530
05-742312	05-923180	06-075970	06-630536	06-992860
05-744798	05-936377	06-135707	06-635965	06-A08678
05-746599	05-937435	06-204838	06-636176	06-A29798
05-746885	05-941866	06-218714	06-641052	06-A35312
05-750579	05-947676	06-221774	06-643911	06-A84020
05-751132	05-948004	06-221988	06-644374	06-A84062
05-753843	05-950857	06-243227	06-650511	06-A88823
05-760216	05-969038	06-246091	06-656039	06-B32839
05-764866	05-991275	06-286664	06-658105	06-B53640
05-768251	05-A16112	06-288152	06-664220	06-B56398
05-769136	05-A16678	06-308846	06-665515	06-B56803

Pierce v. NovaStar Mortgage, Inc.
United States District Court
Western District of Washington at Tacoma
No. C05-5835-RJB
SETTLEMENT AGREEMENT AND GENERAL RELEASE
EXHIBIT B
Class Members (By Loan ID No.)

06-B61672	07-080288
06-B67918	07-776122
06-B78071	07-N09966
06-B86869	
06-BF2411	
06-C15811	
06-C32306	
06-C44674	
06-C46685	
06-C51232	
06-C66860	
06-C68758	
06-C79133	
06-C85428	
06-C87351	
06-C90825	
06-C93112	
06-D10661	
06-D77117	
06-D77639	
06-D77838	
06-E23458	
06-E40984	
06-E44182	
06-E78200	
06-E82111	
06-G37124	
06-G87985	
06-G95240	
06-K84479	
06-L14462	
06-L18712	
06-L94563	
06-Q17661	
06-R27345	
06-T60419	
06-T63578	
06-T98888	
06-U47629	
06-U59581	
06-W96673	
06-W97787	
07-057578	
07-073562	

Honorable Robert J. Bryan

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

CAMERON PIERCE and PATRICIA
PIERCE, husband and wife; KAREN KIRBY,
a single woman; GREGORY SHERMAN and
PAULA SHERMAN, husband and wife; and
MICHAEL LEPAGE and GERTRUDE
LEPAGE, husband and wife, LARRY
BROWN, a single man, and RALPH
MARTINELLI, a single man, on behalf of
themselves and a class of similarly situated
individuals,

Plaintiffs,

v.

NOVASTAR MORTGAGE, INC., a foreign
corporation,

Defendant.

No. C05-5835 RJB

**NOTICE OF CLASS ACTION
SETTLEMENT AND FAIRNESS
HEARING**

This is a notice from the Court – It is not a solicitation from a lawyer. Your legal rights are affected whether you act or don't act. Please read this notice carefully.

This is a notice to you about the settlement of a class action in which you are a member. The Court certified a class of NovaStar Mortgage, Inc. ("NovaStar") borrowers in Washington State. Based on plaintiffs' claims in the case, the Court has determined that you are a member of its certified class, because:

- You entered into a federally-regulated mortgage loan that was subject to the requirements of Washington law and secured by property within the State of

NOTICE OF CLASS ACTION - 1

PHILLIPS LAW GROUP, PLLC
315 FIFTH AVENUE SOUTH, SUITE 1000
SEATTLE, WASHINGTON 98104-2682
telephone (206) 382-6163
fax (206) 382-6168

EXHIBIT B

Washington, at any time from December 30, 2001, to the present; and

- Plaintiffs allege that NovaStar paid money to your mortgage broker ("Payment"); in return for negotiating a higher interest loan for you; and
- Plaintiffs allege that neither NovaStar nor the broker adequately disclosed to you the Payment on a good faith estimate dated no later than three days after the date on which NovaStar received the loan application or, if your application was received fewer than three days before you signed final loan documents, the date on which you signed final loan documents; and
- You paid the mortgage broker compensation in the form of an "origination fee" or "broker fee" in addition to the Payment that NovaStar paid to the broker.

The suit claims that NovaStar did not adequately disclose to plaintiffs and the class NovaStar's payments to brokers. Plaintiffs claim that they and the class received higher interest rate loans due to NovaStar's inadequately disclosed payment to brokers. NovaStar denies these claims, but has agreed to a class-wide settlement on the terms outlined below.

Purpose of This Notice

The purpose of this notice is to inform you that the parties have reached a Settlement, to explain the terms of the settlement to you and to provide you an opportunity to comment on or object to the Settlement, if you so desire.

What are the Terms of the Settlement?

The Settlement establishes a \$3.3 million Class Settlement Fund to be distributed to members of the class, which includes you and approximately 1,600 borrowers. Each class member will receive a check based on a distribution plan to be approved by the Court that will compensate each class member for the cost of the higher interest rate loan to them. NovaStar must pay interest on the \$3.3 million Class Settlement Fund, starting 90 days after June 11, 2007, with a cap of \$125,000 in accrued interest. At the Fairness Hearing scheduled for **September 28, 2007**, Class Counsel will ask the Court to award from the Class Settlement Fund a total of \$22,500 to the class representatives as an incentive payment for their contributions to the litigation, and approximately \$85,000 as reimbursement for expenses incurred by Class Counsel in prosecuting the case. The remainder of the \$3.3 million Class Settlement Fund will be distributed to class members as directed by the Court.

When will the Court Decide Whether to Finally Approve the Settlement?

The Court will hold a **Fairness Hearing on September 28, 2007**, in Courtroom No. 1, Union Station Courthouse, 1717 Pacific Avenue, Tacoma, WA 98402, to determine whether the Settlement is fair, reasonable and adequate and the amount of attorney fees to be awarded to Class Counsel. At the Fairness Hearing, Class Counsel will request an award of \$1.8

1 million in attorney fees, plus up to an additional \$75,000 associated with final approval and
 2 administration of the settlement to be paid by NovaStar. NovaStar has agreed to pay these
 3 amounts, which will not reduce the Class Settlement Fund of \$3.3 million, but will be in addition
 4 to the Class Settlement Fund. The Court will consider any objections to the Settlement at the
 5 Fairness Hearing. If you wish to comment or object to the Settlement, you must submit your
 6 comments or objections in writing to Class Counsel, John W. Phillips, Phillips Law Group,
 7 PLLC, 315 5th Avenue South, Suite 1000, Seattle, WA 98104 postmarked no later than **August
 15, 2007**. If you wish to speak at the Fairness Hearing, you must tell Mr. Phillips in writing no
 later than **August 15, 2007**, and he will inform the Court and parties of your intention. If you do
 not comply with these requirements, you will not be entitled to be heard at the Fairness Hearing
 or otherwise to contest the Settlement or appeal from any orders of the Court.

8 **Where Do I Get Additional Information?**

9 If you want more information or would like a copy of the Settlement Agreement or other
 10 papers filed in the case, you may contact Class Counsel whose names and addresses are set forth
 below:

11 John W. Phillips
 12 Matthew Geyman
 13 Phillips Law Group, PLLC
 315 Fifth Avenue South, Suite 1000
 Seattle, WA 98104
 206-382-8085, ext. 104

Ari Y. Brown
 Matthew P. Bergman
 Bergman & Frockt
 614 First Avenue
 Fourth Floor
 Seattle, WA 98104
 206 957-9510

14
 15 **Please do not telephone either the Clerk's Office or the judge assigned to this
 lawsuit.**

16 **Reminder about Time Limits**

17 If you would like to comment on or object to the Settlement or speak at the Fairness
 18 Hearing, you must tell Class Counsel in writing by **August 15, 2007**.

19 DATED this ____ day of _____, 2007.

20
 21 _____
 Honorable Robert J. Bryan
 United States District Judge

Honorable Robert J. Bryan

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

CAMERON PIERCE and PATRICIA
PIERCE, husband and wife; KAREN KIRBY,
a single woman; GREGORY SHERMAN and
PAULA SHERMAN, husband and wife; and
MICHAEL LEPAGE and GERTRUDE
LEPAGE, husband and wife, LARRY
BROWN, a single man, and RALPH
MARTINELLI, a single man, on behalf of
themselves and a class of similarly situated
individuals,

Plaintiffs,

v.

NOVASTAR MORTGAGE, INC., a foreign
corporation,

Defendant.

No. C05-5835 RJB

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SETTLEMENT AND FAIRNESS
HEARING**

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NOTICE OF CLASS ACTION - 1

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SEATTLE, WASHINGTON 98104-2682
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fax (206) 382-6168

EXHIBIT C

Washington, at any time from December 30, 2001, to the present; and

- Plaintiffs allege that NovaStar paid money to your mortgage broker ("Payment"); in return for negotiating a higher interest loan for you; and
- Plaintiffs allege that neither NovaStar nor the broker adequately disclosed to you the Payment on a good faith estimate dated no later than three days after the date on which NovaStar received the loan application or, if your application was received fewer than three days before you signed final loan documents, the date on which you signed final loan documents; and
- You paid the mortgage broker compensation in the form of an "origination fee" or "broker fee" in addition to the Payment that NovaStar paid to the broker.

The suit claims that NovaStar did not adequately disclose to plaintiffs and the class NovaStar's payments to brokers. Plaintiffs claim that they and the class received higher interest rate loans due to NovaStar's inadequately disclosed payment to brokers. NovaStar denies these claims, but has agreed to a class-wide settlement on the terms outlined below.

Purpose of This Notice

The purpose of this notice is to inform you that the parties have reached a Settlement, to explain the terms of the settlement to you, to provide you an opportunity to comment on or object to the Settlement, and to give you the chance to exclude yourself from the settlement, if you so desire.

What are the Terms of the Settlement?

The Settlement establishes a \$3.3 million Class Settlement Fund to be distributed to members of the class, which includes you and approximately 1,600 borrowers. Each class member will receive a check based on a distribution plan to be approved by the Court that will compensate each class member for the cost of the higher interest rate loan to them. NovaStar must pay interest on the \$3.3 million Class Settlement Fund, starting 90 days after June 11, 2007, with a cap of \$125,000 in accrued interest. At the Fairness Hearing scheduled for **September 28, 2007**, Class Counsel will ask the Court to award from the Class Settlement Fund a total of \$22,500 to the nine class representatives as an incentive payment for their contributions to the litigation, and approximately \$85,000 as reimbursement for expenses incurred by Class Counsel in prosecuting the case. The remainder of the \$3.3 million Class Settlement Fund will be distributed to class members as directed by the Court.

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NOTICE OF CLASS ACTION - 2

PHILLIPS LAW GROUP, PLLC
315 FIFTH AVENUE SOUTH, SUITE 1000
SEATTLE, WASHINGTON 98104-2682
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fax (206) 382-6168

1 awarded to Class Counsel. At the Fairness Hearing, Class Counsel will request an award of \$1.8
 2 million in attorney fees, plus up to an additional \$75,000 associated with final approval and
 3 administration of the settlement to be paid by NovaStar. NovaStar has agreed to pay these
 4 amounts, which will not reduce the Class Settlement Fund of \$3.3 million, but will be in addition
 5 to the Class Settlement Fund. The Court will consider any objections to the Settlement at the
 6 Fairness Hearing. If you wish to comment or object to the Settlement, you must submit your
 7 comments or objections in writing to Class Counsel, John W. Phillips, Phillips Law Group,
 8 PLLC, 315 5th Avenue South, Suite 1000, Seattle, WA 98104 postmarked no later than **August
 15, 2007**. If you wish to speak at the Fairness Hearing, you must tell Mr. Phillips in writing no
 9 later than **August 15, 2007**, and he will inform the Court and parties of your intention. If you do
 10 not comply with these requirements, you will not be entitled to be heard at the Fairness Hearing
 11 or otherwise to contest the Settlement or appeal from any orders of the Court.

9 **What do I have to do?**

10 **If you wish to remain a member of the Class and benefit from the Settlement, you**
 11 **do not need to do anything.** If the Court approves the Settlement, then you will release your
 12 claims against NovaStar based on the facts and allegations in this case, and be paid your portion
 13 of the settlement.

14 If you do not wish to participate in the Settlement, you must mail your request to be
 15 excluded from the class postmarked no later than **August 15, 2007**, to **Abigail Daquiz,**
 16 **NovaStar Exclusion Request, Phillips Law Group, PLLC, 315 5th Avenue South, Suite**
 17 **1000, Seattle, WA 98104.** If you request in writing to be excluded:

- 18 • You will not be affected by this Class Action and will not be bound by its
 19 resolution.
- 20 • You will not be eligible for any payment under the Settlement.
- 21 • You will be allowed to file your own lawsuit against NovaStar based on the
 22 same allegations alleged by the plaintiffs in this case.

23 If you remain a member of the Class, the Class Representatives and Class Counsel will
 24 act as your representatives in seeking final approval of the Settlement that is the subject of this
 25 Notice. If you desire, you may also appear through your own attorney. You may seek to
 26 intervene individually and may advise the Court if at any time you consider that you are not
 being fairly and adequately represented by the Class Representatives and Class Counsel.

24 **Where Do I Get Additional Information?**

25 If you want more information or would like a copy of the Settlement Agreement or other
 26 papers filed in the case, you may contact Class Counsel whose names and addresses are set forth
 below:

1 John W. Phillips
2 Matthew Geyman
3 Phillips Law Group, PLLC
4 315 Fifth Avenue South, Suite 1000
5 Seattle, WA 98104
6 206-382-8085, ext. 104

Ari Y. Brown
Matthew P. Bergman
Bergman & Frockt
614 First Avenue
Fourth Floor
Seattle, WA 98104
206-957-9510

7 **Please do not telephone either the Clerk's Office or the judge assigned to this**
8 **lawsuit.**

9 **Reminder about Time Limits**

10 If you would like to comment on or object to the Settlement or speak at the Fairness
11 Hearing, you must tell Class Counsel in writing by **August 15, 2007**.

12 DATED this ____ day of _____, 2007.

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Honorable Robert J. Bryan
United States District Judge